

How does a ‘contractor-client CONTRACT FOR SERVICES’ WORK.

Contractors have a contract for services with their client or agency. Or to be more precise, the contractor’s limited company or umbrella company has a contract of service with the client or agency.

A contract for services is a strictly business to business contract between two firms on a buyer and supplier basis. The client, or agency, is a buyer and the contractor’s limited company or umbrella company is the supplier. There is no question of any employment relationship.

Contractor’s companies that enter into a contract for services with another organisation (including public sector organisations or not-for-profit companies) have clear rights and obligations.

The key rights, obligations and responsibilities that a contractor’s limited company or umbrella company has under a contract for services include:

- A requirement to supply services to the client according to the contract schedule’s specification
- A requirement to complete the project, and any milestones, according to the contract schedule
- A requirement to provide services to the standard required by the client as agreed in the contract
- An obligation to make right any errors or defective work, without additional remuneration
- Liability for any errors or defects in work completed for clients, and this may expand to personal liability (assuming the contractor is a director) for worst-case scenarios, such as corporate manslaughter
- The right to be paid the rate agreed in the contract, assuming the services have been provided according to the contract’s requirements
- The right to be paid according to the terms agreed, such as within 7 days, or 30 days depending on the terms agreed in the contract
- The right to provide a substitute to complete the work specified in the contract
- Often the contractor is required to abide by any health and safety and security arrangements when working on the client’s site
- The client is obliged to provide a safe working environment for the contractor.

As directors of their own limited companies, contractors also have a range of duties, responsibilities and potential liabilities under company law, which employees do not have.

If either party fails to fulfill their obligations under the terms of the contract, they are in breach of contract and can take legal action to remedy the situation.

In effect, the relationship between a contractor’s limited company or umbrella company and the client or agency is no different from a major international corporation’s relationship with its suppliers.

Contractors who are aware of the full range of issues surrounding contracts of service and contracts for service are in a much better position to judge whether their employment status is affected by IR35, and can seek professional assistance accordingly.